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NEWS RELEASE

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PSC WARNS OF RISING HEATING COSTS *Urges customers to prepare for higher natural gas prices*

FRANKFORT, Ky. (Aug. 5, 2008) – Heating homes and businesses this winter is likely to cost more as a result of higher energy prices, particularly for natural gas, the Kentucky Public Service Commission (PSC) says.

“Natural gas prices this summer have hit levels not seen since the fall of 2005, when supplies were disrupted by hurricanes Katrina and Rita,” PSC Chairman David Armstrong said. “Although prices have fallen in recent weeks, it still seems likely that heating costs this winter will be higher than in the last two years.

“Now is the time to prepare for the heating season by weatherizing your home,” he said. “A little bit of caulking or insulation now can make a big difference when cold weather arrives.”

Armstrong also urged consumers to sign up for budget billing plans, which spread winter heating costs over a 12-month period. Consumers who think they might qualify for home heating assistance programs should begin gathering information about the application process, he said.

Natural gas prices generally are driven by supply and demand. They have been moving higher since 2003, with most of the increase due to rising demand that has strained the ability of producers to keep pace.

However, the steep increases seen this summer do not appear to be related to market imbalances. Rather, according to many analysts, they are a result of the flow of investment dollars into commodity markets, which has driven up prices.

By federal law, natural gas prices are not regulated at the wholesale level and fluctuate with market conditions. Under Kentucky law, gas companies are entitled to recover the wholesale cost of the gas delivered to customers, including the fees they pay to interstate pipelines to transport the gas to their retail distribution systems. Companies are not allowed to earn a profit on their gas costs. The companies’ gas cost adjustments are reviewed by the PSC to make sure they accurately reflect the wholesale cost of gas.

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The wholesale cost of natural gas accounts for about three-fourths of a typical consumer's winter bill.

The most recent wholesale gas cost adjustments filed by Kentucky's five major natural gas distribution companies reflect the situation in the national natural gas market. They are, on average, 65 percent higher than a year ago.

Three of the five companies - Atmos Energy, Delta Natural Gas Co. Inc., and Louisville Gas and Electric Co. - filed their highest gas cost adjustments ever last month. Gas cost adjustments for Columbia Gas of Kentucky Inc. and Duke Energy Kentucky Inc. are at near-record levels.

All of the companies will be adjusting their wholesale costs again prior to the start of the winter heating season. Those adjustments will take into account further changes in wholesale prices for natural gas.

"While the high prices now are certainly cause for concern, they are coming at a time when most consumers are using relatively little natural gas," PSC Chairman Armstrong said. "If prices continue their current trend, the situation could improve before the start of winter."

About half of the natural gas used for winter heating is put into storage in the summer. In the past, gas was less expensive in the summer and helped offset higher gas prices in the winter. Due to national demand for gas for electric generation, especially in the summer, that is no longer the case.

Even though prices have fallen sharply in recent weeks, a portion of the gas put into storage this summer was bought prior to the decline. The cost of that gas will be reflected in heating bills this winter.

The overall cost of natural gas this winter will be determined by the cost of gas withdrawn from storage combined with the cost of gas purchased by distribution companies during the heating season.

The five major natural gas distribution companies serve a total of more than 750,000 customers in Kentucky. About 44 percent of Kentuckians heat their homes with natural gas. Those who heat with propane (10 percent) and fuel oil (3 percent) also will pay substantially more than a year ago. The cost of heating with electricity also will be somewhat higher due to higher prices for coal, which is used to generate nearly all of Kentucky's electric power.

The PSC is an independent agency attached for administrative purposes to the Energy and Environment Cabinet. It regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in the Commonwealth of Kentucky and has approximately 100 employees.

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CONSUMER INFORMATION SHEET FOLLOWS

COPING WITH HIGH NATURAL GAS PRICES

Information for consumers

Kentucky consumers can take a number of steps to reduce their natural gas usage or to soften the impact of gas costs. They include:

Budget billing: This option allows customers to pay the same amount each month, based on their average monthly usage during the year. Customers should contact their utility for more information.

Energy conservation measures: Simple steps such as turning down thermostats on furnaces (most people are comfortable at 68 degrees) and water heaters (120 degrees is hot enough for nearly all uses) can be big energy savers.

Energy audits: Many local utilities offer home energy audits at little or no cost to consumers. These audits can identify energy-wasting trouble spots and provide information on how to correct the problems.

Weatherization: Consumers can do a number of things to reduce inflows of cold air and leakage of warm air, particularly around windows and doors. Some basic weatherization steps include:

- Use caulk or weatherstripping to seal cracks around windows, doors, pipes and other points where cold air can enter the home. This alone can reduce heating costs by 10 percent or more.
- Add insulation in attics, crawl spaces and walls.
- Cover windows, especially those with single-pane glass, with storm windows or plastic sheeting before the onset of cold weather.
- Clean or replace furnace filters monthly to improve airflow and efficiency.

Advice on conserving energy, including links to a wide range of information, also is available from the Kentucky Division of Energy Efficiency and Conservation, on the Web at:

<http://www.energy.ky.gov/dre3/tips/>

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Weatherization assistance for low-income families is available in Kentucky. Many utilities offer weatherization assistance in conjunction with local social service agencies. Local social service agencies also offer assistance through a state program administered by the Kentucky Cabinet for Health and Family Services. For information on weatherization assistance, go to:

<http://chfs.ky.gov/dcbs/dfs/Weatherization.htm>

Low-income consumers may qualify for assistance with their heating bills through the Low-Income Home Energy Assistance Program (LIHEAP). It is administered at the local level by community action agencies. Consumers who do not qualify for LIHEAP may be eligible for assistance through programs sponsored by their utility company or programs operated by local social service organizations. Consumers should contact their utility for more information. Information about LIHEAP is available on the Web at:

<http://chfs.ky.gov/dcbs/dfs/LIHEAP.htm>

For general information about cutting heating costs, utility issues or for assistance with resolving consumer disputes with utilities, contact the PSC by calling 800-772-4636 or go to the PSC Web site at:

<http://psc.ky.gov>